

Message Text

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TO AMEMBASSY TOKYO PRIORITY
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ALSO FOR USEC AND OECD

E.O. 11652: GDS

TAGS: EFIN, ETRD

SUBJECT: JAPAN/PRC TRADE FINANCING ARRANGEMENTS
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REF: (A) STATE 122705 (NOTAL), (B) LONDON 13960 (NOTAL)
(C) TOKYO 15855

1. BASED ON NEWSPAPER REPORTS IN US AND UK PRESS, WE
QUERIED JAPANESE EMBASSY ON DETAILS OF GOJ/PRC FINANCING
ARRANGEMENTS. JAPANESE EMBASSY HAS ADVISED THAT
FINANCING WILL TAKE TWO FORMS: (A) REGULAR EXPORT

CREDITS WHICH THEY ASSERT WILL CONFORM TO THE INTERNATIONAL ARRANGEMENT ON EXPORT CREDITS AND (B) AN UNTIED LOAN BY THE JAPANESE EXPORT-IMPORT BANK TO THE BANK OF CHINA (BOC).

2. JAPANESE EMBASSY STATED THAT FINANCING ARRANGEMENTS ARE STILL UNDER NEGOTIATION SO NO DETAILS ARE AVAILABLE. HOWEVER, GOJ MAINTAINS THAT, SINCE LOAN TO BOC IS UNTIED, IT IS NOT COVERED BY INTERNATIONAL ARRANGEMENT. FURTHER, THE NEGOTIATIONS BETWEEN JAPANESE BANKS AND BOC INVOLVING DEPOSITS IN THE BOC IS A PRIVATE BUSINESS MATTER AND THE MOF HAS NO INFORMATION ON THESE NEGOTIATIONS. (WE ARE SKEPTICAL THAT PRIVATE BANKS WOULD

NEGOTIATE WITH BOC WITHOUT PRIOR CLEARANCE OF TERMS BY GOJ.)

3. AS INDICATED IN REF A, AN UNTIED LOAN TO BOC AT 6 - 6.5 PERCENT INTEREST ASSOCIATED WITH GOJ/PRC LONG TERM TRADE AGREEMENT (LTA) WOULD NOT BE IN CONFORMITY WITH EITHER SPIRIT OR TERMS OF THE ARRANGEMENT. THE PERCEPTION OF PRC EASILY COULD BE THAT THESE UNTIED LOANS SHOULD ONLY BE USED TO PURCHASE GOODS FROM JAPAN. MOREOVER, IF THE GOJ DOES NEGOTIATE SUCH A LOAN TO THE BOC, IT COULD FORCE OTHERS INTERESTED IN TRADING WITH THE PRC CONFIDENTIAL

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TO EMULATE JAPAN PROBABLY WITHOUT THE UNTYING PROVISION.

4. EMBASSY IS REQUESTED OBTAIN FROM GOJ DETAILS OF VARIOUS FINANCING ARRANGEMENTS NEGOTIATED WITHIN FRAMEWORK OF JAPAN/PRC LTA. FOR EXAMPLE, INTEREST RATES, MATURITIES, CURRENCY OF PAYMENT, MEANS OF FINANCING CASH PAYMENT, AND AMOUNT OF LOAN, CREDIT AND DEPOSIT. AT THE SAME TIME, IN LIGHT OF POSSIBILITY THAT GOJ MAY FINALIZE AN ARRANGEMENT WITH PRC DURING MITI MINISTER'S VISIT TO PEKING, EMBASSY SHOULD MAKE REPRESENTATION AT HIGH POLITICAL LEVEL EMPHASIZING USG INTEREST. WHILE WE WELCOME ASSURANCE THAT EXPORT CREDIT AGREEMENT WILL CONFORM TO INTERNATIONAL ARRANGEMENT, OTHER ELEMENTS UNDER NEGOTIATION FOR FINANCING TRADE WITH PRC AND THEIR CONFORMITY WITH PROVISIONS OF INTERNATIONAL ARRANGEMENT ON EXPORT CREDITS REMAIN A MATTER OF CONCERN. CHRISTOPHER

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